Digital Realty Trust (DLR)

$136.96 (As of 06/04/20)

Price Target (6-12 Months): **$145.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 08/08/18)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D | Momentum: A	

Summary

Shares of Digital Realty have outperformed its industry over the past year. The company announced about its entry into the Mexico market in association with Ascenty, a Latin American data-center service provider and Digital Realty's joint-venture (JV) company with Brookfield Infrastructure. Two new facilities will be built in the state of Queretaro, Mexico. Notably, solid fundamental of the data-center market is expected to help Digital Realty ride on its growth curve. Furthermore, data centers are poised to benefit from the heightening reliance on technology in the wake of the coronavirus pandemic. Accretive acquisitions and development efforts backed by a healthy balance sheet augur well. However, the company faces intense competition in the industry. Amid this, an aggressive pricing pressure will likely persist in the upcoming period.
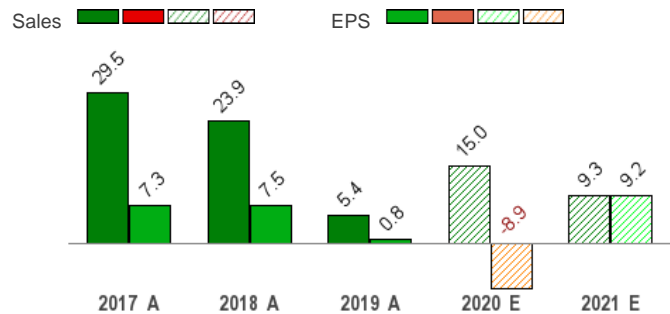
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$158.36 - $105.00**
20 Day Average Volume (sh)	**2,190,163**
Market Cap	**$36.7 B**
YTD Price Change	**14.4%**
Beta	**0.19**
Dividend / Div Yld	**$4.48 / 3.3%**
Industry	**REIT and Equity Trust - Other**
Zacks Industry Rank	**Top 47% (120 out of 253)**
Last EPS Surprise	**-0.7%**
Last Sales Surprise	**5.5%**
EPS F1 Est- 4 week change	**-5.7%**
Expected Report Date	**08/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**21.2**
P/E F1	**22.6**
PEG F1	**3.3**
P/S TTM	**11.4**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	973 E	1,005 E	1,023 E	1,041 E	4,033 E
2020	823 A	905 E	934 E	971 E	3,689 E
2019	815 A	801 A	806 A	787 A	3,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.57 E	$1.63 E	$1.66 E	$1.69 E	$6.62 E
2020	$1.53 A	$1.48 E	$1.50 E	$1.56 E	$6.06 E
2019	$1.73 A	$1.64 A	$1.67 A	$1.62 A	$6.65 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/04/2020. The reports text is as of 06/05/2020.

Overview

Digital Realty Trust is engaged in the ownership, acquisition, repositioning and management of the technology-related real estate. Specifically, the company offers data center, colocation and interconnection solutions for domestic and international tenants through its portfolio of data centers located throughout North America, Europe, Asia and Australia. The tenants belong to a wide variety of industry verticals, ranging from financial services, cloud and information technology services, to manufacturing, energy, healthcare and consumer products.

The company is headquartered in San Francisco, CA. It has regional U.S. offices in Boston, Chicago, Dallas, Los Angeles, New York, Northern Virginia and Phoenix, as well as regional international offices in Amsterdam, Dublin, London, São Paulo, Singapore, Sydney, Tokyo and Hong Kong.

As of Mar 31, 2020, the company's portfolio comprised 213 data centers. This included 40 properties held as investments in unconsolidated joint ventures. Out of these, 122 data centers are situated throughout North America, while 41 are located in Europe, 19 in Latin America, 10 in Asia, five in Australia. The portfolio contains 29.75 million square feet, including about 4.3 million square feet of space under active development and 1.7 million square feet of space held for future development.

EPS Hist. and Est.

Sales Hist. and Est.

In recent years, Digital Realty has opted for strategic acquisitions which helped the company gain scale. Particularly, in March 2020, the company announced that it has completed the acquisition of Interxion, a provider of carrier and cloud-neutral colocation data-center services. The acquisition deal, which was announced last October and valued at $8.4 billion, including debt, aids Digital Realty to gain a strong presence in Europe and capitalize on Interxion's expertise in the colocation and interconnection space in the region.

Note**: *All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*
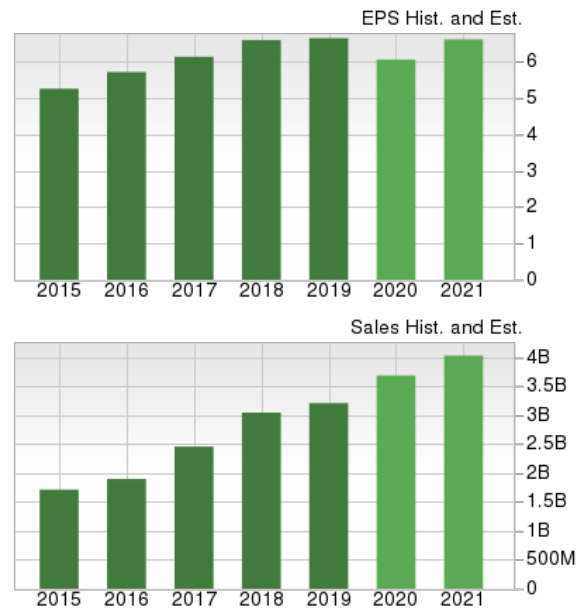
Reasons To Buy:

▲ Digital Realty has a high-quality diversified customer base comprising tenants from Cloud, Content, Information technology, Network and Enterprise, and Financial industries. Tenant roster includes names like Facebook, IBM, Oracle, Linkedin, Uber, Verizon, Comcast and others. Majority of its tenants are investment grade and numerous customers use multiple locations across the portfolio.

▲ Digital Realty is expected to ride on its growth curve backed by strategic acquisitions. The company recently completed the previously-announced acquisition of Interxion, a European provider of carrier and cloud-neutral colocation data-center services for a total consideration of $8.4 billion, including debt. The combined company will enjoy enhanced presence in major European metro areas, and its size and scale is expected to result in an efficient cost structure and superior EBITDA margins. During the March-end quarter, Digital Realty also closed on the previously-announced buyout of 49% stake in the Westin Building Exchange in Seattle, WA, for around $368 million. Also, the company enhanced its presence in Europe, Australia and Asia in recent years through the development of high-quality facilities. We believe such expansion efforts will drive the company's top and bottom lines in the years ahead.

▲ With growth in cloud computing, Internet of Things and big data, and an increasing number of companies opting for third-party IT infrastructure; data-center REITs are experiencing a boom market. Also, the estimated growth rates for the artificial intelligence, autonomous vehicle and virtual/augmented reality markets will remain robust over the next five to six years. In fact, demand is outpacing supply in top-tier data center markets and despite enjoying high occupancy, the top-tier markets are absorbing new construction at a faster pace. These are anticipated to drive demand for data centers. Apart from these, data centers are poised to benefit from the heightening reliance on technology in the wake of the coronavirus pandemic.

▲ Moreover, the company delivered a healthy performance in first-quarter 2020 on solid data-center demand. Signed total bookings during the reported quarter are estimated to generate $75 million of annualized GAAP rental revenues. This marked the second highest quarter on record. In addition, the company signed renewal leases, marking $92 million of annualized GAAP rental revenues.

▲ The company focuses on maintaining a solid balance sheet and enjoys ample liquidity, with diversified sources of capital. As a result of its proactive balance-sheet management, the company had $250 million of cash on the balance sheet as of Mar 31, together with $1.7 billion of additional equity following the quarter-end and $2 billion of availability on its global revolving credit facilities. Its debt maturity schedule is well-laddered, with weighted average maturity of 6.2 years and 3.0% weighted average coupon. Net debt to adjusted EBITDA is in line with the company's targeted range. Further, 98% of its total debt is unsecured, offering flexibility for capital recycling.

▲ Additionally, solid dividend payouts are the biggest enticement for REIT shareholders and Digital Realty remains committed to that. Furthermore, in February 2020, the company announced a 4% hike in dividend to $1.12 per share. The company has raised dividend every year since its initial public offering and the latest dividend hike marked the 15th consecutive year of increase. Given its solid operating platform and balance sheet management efforts, the company remains well poised to sustain the dividend payment.

> Digital Realty is well poised to grow amid robust demand for data centers, accretive acquisitions, development efforts and solid balance-sheet strength. Rising dividends augur well for shareholders.

Reasons To Sell:

▼ Digital Realty faces stiff competition in its industry. In fact, the company competes with several data center developers, owners and operators, many of whom enjoy ownership of similar assets in locations same as Digital Realty. Also, there are a number of local developers in the United States, and several regional operators in Europe, Asia and Australia. Given the solid growth potential of the data center real estate market, competition is expected to increase in the upcoming period from existing players, as well as the entry of new players. Amid this, there is likely to be aggressive pricing pressure in the data center market.

▼ Digital Realty has a significant number of properties situated outside the United States. The company is also considering making additional international acquisitions. Although a sound global footprint helps the company meet rising data center requirements of customers around the world, the process exposes the company's earnings to foreign currency translation.

▼ While data centers are largely unaffected by the coronavirus pandemic, the company noted that though its April rent collections were in line with historical averages, tenants accounting for roughly 2% of total revenues, have requested for rent relief. Also, there is likely to be a modest drag from development delivery delays in select markets. The company expects 13 cents per share headwind in the current-year attributable to FX and COVID-19 impacts.

▼ Shares of Digital Realty have outperformed its industry over the past year. The stock has gained 19.2%, compared with the industry's decline of 4.2%. However, the recent trend in estimate revision of current-year FFO per share does not indicate an upbeat outlook. In fact, over the past month, the Zacks Consensus Estimate for 2020 FFO per share moved 5.2% downward. Therefore, given the above-mentioned factors and downward estimate revisions, the stock has limited upside potential.

> Digital Realty faces cut-throat competition in the industry, leading to aggressive pricing pressure. In addition, notable exposure to foreign currency translation is a concern for the company.

Last Earnings Report

Digital Realty Lags Q1 FFO Estimates, Offers '20 View

Digital Realty reported first-quarter 2020 core FFO per share of $1.53, lagging the Zacks Consensus Estimate of $1.54. Moreover, the reported figure compared unfavorably with the year-ago quarter's $1.73.

The lower-than-expected performance reflects the impact of higher share count. However, the company experienced decent leasing activities and strong signed total bookings.

The company reported operating revenues of $823.3 million in the first quarter, marking a 1% year-over-year rise. The revenue figure also surpassed the Zacks Consensus Estimate of $780.2 million.

Quarter Ending	03/2020
Report Date	**May 07, 2020**
Sales Surprise	**5.53%**
EPS Surprise	**-0.65%**
Quarterly EPS	**1.53**
Annual EPS (TTM)	**6.46**

Quarter in Detail

Signed total bookings during the reported quarter are estimated to generate $75 million of annualized GAAP rental revenues. This is expected to include a $9-million contribution from interconnection. Notably, the weighted-average lag between leases signed during first-quarter 2020 and the contractual commencement date was five months.

Moreover, the company signed renewal leases, marking $92 million of annualized GAAP rental revenues. Rental rates on renewal leases signed during the quarter rolled down 1.5% on a cash basis and up 0.7% on a GAAP basis.

Portfolio Activity

During the March-end quarter, Digital Realty closed on the previously-announced buyout of 49% stake in the Westin Building Exchange in Seattle, WA, for around $368 million. The amount included the assumption of existing debt. The facility is anticipated to generate aggregate cash NOI of around $43 million in 2020. This indicates a 5.8% cap rate.

It also wrapped up the previously-announced combination with Interxion. This will allow the combined company to cater to customers' full spectrum of data-center requirements across its global platform.

Balance Sheet

Digital Realty exited first-quarter 2020 with cash and cash equivalents of around $246.5 million, up from $89.8 million recorded at the end of 2019.

Further, during first-quarter 2020, the company issued 264,765 shares of common stock under its at-the-market ("ATM") equity offering program, generating around $37 million in gross proceeds. Subsequent to the quarter end, it issued additional 4.3 million shares, resulting in gross proceeds of nearly $615 million.

Additionally, as of Mar 31, 2020, the company had $12.3 billion of total debt outstanding, of which $12.1 billion was unsecured debt and $0.2 billion was secured debt. Also, as of the same date, its net debt-to-adjusted EBITDA was 6.6x, while fixed charge coverage was 3.8x.

Guidance

Digital Realty has provided guidance for 2020 core FFO per share and expects the same to be $5.90-$6.10. It expects total revenues to be between $3.725 billion and $3.825 billion, and adjusted EBITDA to be $2.075-$2.125 billion for 2020. It expects year-end portfolio occupancy of 85-86% and "Same-capital" cash NOI to decline 2.5-3.5%.

Digital Realty Lags Q1 FFO Estimates, Offers '20 View

Recent News

Digital Realty to Set Foot in Mexico Market With Ascenty – Jun 3, 2020

Digital Realty recently announced about its entry into the Mexico market in association with Ascenty, a Latin American data-center service provider and Digital Realty's joint-venture (JV) company with Brookfield Infrastructure. Two new facilities will be built in the state of Queretaro, Mexico, with the initial phases slated for delivery in 2021.

The facilities, estimated to have a full build-out IT capacity of 36 megawatts, are anchored by long-term, U.S. dollar-denominated, multi-megawatt agreements for supporting a leading global cloud provider's growth. With underground dark fiber-optic network, the new data centers will be interconnected, offering access to networks, cloud, and connectivity providers in a single, secure environment, the company said.

The expansion in Mexico seems a strategic fit. With a population of more than 120 million, Mexico is the second-largest country in Latin America. Also, Mexico City is one of the largest metropolitan areas in the world. Internet usage by the population is taking place at a rapid pace and as such Mexico is developing as a leading technology hub in Latin America. The new facilities, therefore, offer scope to capitalize on the digital transformation across the region.

Digital Realty's Oakland Data Center to Support Shadowserver - May 18, 2020

Digital Realty inked a deal with The Shadowserver Foundation for supporting the latter's data-center needs at Digital Realty's facility in Oakland, CA. The company's Network Hub solution on PlatformDIGITAL™ will help the foundation strengthen its internet security.

According to Digital Realty chief technology officer Chris Sharp "With Network Hub on PlatformDIGITAL™,organizations can break through data gravity barriers to scale digital business."

Notably, the Oakland data center of Digital Realty provides direct access to Silicon Valley and the capacity to support high-density deployments, offering agility and flexibility to assist customers meet their rising data-center requirements. The Oakland data center has access to more than 60 networks within Digital Realty's Bay Area Connected Campus and is well poised to support the foundation in streamlining its data-center network.

Dividend Update

On May 12, the company announced a quarterly cash dividend to $1.12 per share. The dividend will be paid on Jun 30, to the common stockholders as of Jun 15, 2020.

Valuation

Digital Realty shares have been up 19.2% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 4.2% and 9.5% in the past year, respectively.

The S&P 500 index is up 10.1% in the past year.

The stock is currently trading at 21.80X forward 12-month FFO, which compares to 19.03X for the Zacks sub-industry, 17.16X for the Zacks sector and 22.48X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.50X and as low as 11.51X, with a 5-year median of 17.00X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $145 price target reflects 23.08X FFO.

The table below shows summary valuation data for DLR.

Valuation Multiples - DLR		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	21.8	19.03	17.16	22.48
	5-Year High	23.5	19.03	17.16	22.48
	5-Year Low	11.51	14.32	11.57	15.23
	5-Year Median	17	16.04	13.96	17.49
P/S F12M	Current	9.67	8.21	5.8	3.5
	5-Year High	12.08	8.21	6.69	3.5
	5-Year Low	4.48	5.91	4.98	2.53
	5-Year Median	7.23	6.88	6.06	3.02
P/B TTM	Current	2.33	2.39	2.4	4.25
	5-Year High	5.88	3.01	2.9	4.56
	5-Year Low	2.05	1.8	1.71	2.83
	5-Year Median	2.92	2.5	2.53	3.66

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 47% (120 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
American Tower Corporation REIT **(AMT)**	Neutral	3
Crown Castle International Corporation **(CCI)**	Neutral	3
CyrusOne Inc **(CONE)**	Neutral	3
CoreSite Realty Corporation **(COR)**	Neutral	3
Equinix, Inc. **(EQIX)**	Neutral	3
Iron Mountain Incorporated **(IRM)**	Neutral	3
QTS Realty Trust, Inc. **(QTS)**	Neutral	3
SBA Communications Corporation **(SBAC)**	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other — Industry Peers

	DLR	X Industry	S&P 500	CONE	COR	EQIX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	A	C	B
Market Cap	36.75 B	2.07 B	22.58 B	8.44 B	4.43 B	57.16 B
# of Analysts	9	4	14	9	10	7
Dividend Yield	3.27%	4.15%	1.87%	2.73%	4.17%	1.60%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.07	0.06	0.01	0.00	0.02
EV/EBITDA	23.51	14.55	12.93	21.58	20.22	27.70
PEG Ratio	3.30	3.65	3.06	0.86	1.09	1.30
Price/Book (P/B)	2.33	1.34	3.09	3.57	26.95	6.59
Price/Cash Flow (P/CF)	15.77	11.21	12.17	19.66	19.01	29.80
P/E (F1)	22.86	15.29	22.17	19.09	22.71	27.31
Price/Sales (P/S)	11.42	5.12	2.41	8.42	7.63	10.13
Earnings Yield	4.42%	6.08%	4.27%	5.24%	4.40%	3.66%
Debt/Equity	0.87	0.92	0.76	1.40	9.56	1.44
Cash Flow ($/share)	8.68	2.03	7.01	3.73	6.15	22.33
Growth Score	D	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	6.60%	2.02%	10.87%	13.77%	16.68%	15.90%
Proj. EPS Growth (F1/F0)	-8.84%	-2.81%	-10.79%	5.75%	0.98%	6.78%
Curr. Cash Flow Growth	14.13%	3.36%	5.48%	24.40%	4.75%	12.38%
Hist. Cash Flow Growth (3-5 yrs)	19.36%	12.74%	8.55%	30.81%	17.21%	22.24%
Current Ratio	0.45	1.83	1.29	1.20	0.17	1.26
Debt/Capital	44.41%	48.50%	44.75%	58.41%	90.53%	59.00%
Net Margin	21.35%	12.85%	10.59%	-3.32%	12.74%	9.00%
Return on Equity	7.65%	3.98%	16.26%	1.54%	32.98%	5.80%
Sales/Assets	0.13	0.13	0.55	0.17	0.28	0.24
Proj. Sales Growth (F1/F0)	13.04%	0.00%	-2.61%	5.00%	5.69%	6.92%
Momentum Score	A	-	-	A	A	B
Daily Price Chg	-1.81%	0.02%	-0.08%	-1.98%	-2.36%	-3.46%
1 Week Price Chg	5.71%	4.79%	4.60%	2.81%	2.31%	4.12%
4 Week Price Chg	-8.10%	15.01%	12.07%	0.83%	-2.64%	-1.50%
12 Week Price Chg	6.69%	14.11%	25.17%	47.35%	20.33%	17.70%
52 Week Price Chg	18.58%	-14.64%	0.34%	24.07%	1.67%	34.47%
20 Day Average Volume	2,190,163	877,892	2,537,324	1,261,483	423,676	614,176
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.31%
(F1) EPS Est 4 week change	-5.71%	-0.11%	-0.08%	0.00%	0.08%	-3.00%
(F1) EPS Est 12 week change	-7.25%	-5.29%	-16.19%	-0.10%	-0.22%	-3.31%
(Q1) EPS Est Mthly Chg	-8.27%	-0.52%	0.00%	0.00%	0.26%	-3.44%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Value Score	D
Growth Score	D
Momentum Score	A
VGM Score	D

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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